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9 UNITED STATES DISTRICT COURT

10 FOR THE NORTHERN DISTRICT OF CALIFORNIA

11 SAN FRANCISCO DIVISION

12 TYCO HEALTHCARE GROUP LP d/b/a	)	LEAD CASE NO. C08-03129 MMC
13 VNUS MEDICAL TECHNOLOGIES,	)	CASE NO. C08-03129 MMC
14 Plaintiff,	)	PLAINTIFF'S OPPOSITION TO
15 v.	)	DEFENDANTS' MOTION IN LIMINE
16 BIOLITEC, INC. and NEW STAR LASERS,	)	NO. 1
17 INC. d/b/a COOLTOUCH, INC.,	)	[REDACTED]
18 Defendants.)	
19	)	Date: September 14, 2010
20	)	Time: 9:30 a.m.
21	)	Judge: Hon. Maxine M. Chesney

22 TYCO HEALTHCARE GROUP LP d/b/a	)	CASE NO. C08-04234 MMC
23 VNUS MEDICAL TECHNOLOGIES,	)	(consolidated with C08-03129 MMC)
24 Plaintiff,)	
25 v.)	
26 TOTAL VEIN SOLUTIONS, LLC d/b/a)	
27 TOTAL VEIN SYSTEMS,)	
28 Defendant.)	

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1 It is telling that Defendants mention the Federal Circuit’s decision earlier this year in
 2 *ResQNet* for the first time on page seven of a barely more than eight-page brief, after forcing the
 3 Court to wade through citations to more than 20 pre-*ResQNet* decisions. And it is conspicuous that
 4 Defendants ignore completely the bulk of the district court opinions that have considered the
 5 impact of *ResQNet*, opinions acknowledging a significant shift in perspective regarding the
 6 potential relevance to patent damages of licenses that arise out of litigation.

7 VNUS does not dispute that prior to *ResQNet*, the weight of authority supported exclusion
 8 of licenses arising out of litigation. But *ResQNet* brought to that issue the Federal Circuit’s recently
 9 renewed emphasis on the principles that trial courts “must carefully tie proof of damages to *the*
 10 *claimed invention’s footprint* in the market place” and “must exercise vigilance when considering
 11 past licenses to technologies *other* than the patent in suit.” *ResQNet.com, Inc. v. Lansa, Inc.*, 594
 12 F.3d 860, 869 (Fed. Cir. 2010) (emphasis added). To apply these principles to the question of
 13 admissibility of litigation-related licenses in a manner that is grounded in common sense and
 14 economic realism is to appreciate, as the Federal Circuit now clearly does, that the old cases upon
 15 which Defendants rely swept with too broad a broom, depriving fact-finders of any information
 16 about historical licenses having a genuine factual connection to the invention at issue, and too often
 17 leaving them instead to consider licenses having little or no connection to the invention, parties
 18 and/or market actually at issue in the pending case.

19 *ResQNet* stands, without question, at least for the proposition that in some cases the
 20 license(s) *most reliably relevant* to determination of a reasonable royalty will have arisen out of
 21 litigation. For a number of reasons, this is plainly one such case.

22 First, the three licenses in question are the *only* licenses that have ever existed for the
 23 Patents-in-Suit.

24 Second, all three were entered into by *VNUS* as licensor, and all three with licensee
 25 companies that (like Defendants) were at the time of the licenses and are today *competitors of*
 26 *VNUS* in the market for endovenous ablation products.

27 Third, these were not lump-sum settlements that conflated compensation to compromise
 28 past damages claims in litigation with compensation for future use of the Patents-in-Suit. Instead,

1 they broke out separately from payments for past sales the *going forward* royalty structure
 2 according to which future use of claimed inventions would be licensed. This is significant not only
 3 because (like a hypothetical negotiated reasonable royalty) the agreed license structures had to
 4 accommodate the parties' expectations with respect to their ongoing business operations and
 5 viability, and not only because *ResQNet* found a running royalty license arising out of litigation to
 6 be "the most reliable license" in that case, but also because the particular type of running royalty
 7 structure used in the existing licenses strongly supports the type of running royalty structure that
 8 VNUS advances as the measure of reasonable royalty damages in this case.

9 Fourth, in the context of VNUS's lost profits analysis, the terms of these licenses establish
 10 as a matter of simple mathematics the royalty payments VNUS would have received for the portion
 11 of Defendants' infringing sales that, in the "but for infringement" world, would have been made by
 12 the licensees rather than by VNUS.

13 Finally, the licenses that *Defendants* intend to have the jury consider are conspicuously
 14 lacking in meaningful relevance to the Patents-in-Suit or the circumstances of a hypothetical
 15 reasonable royalty negotiation. They are clearly far less relevant and less reliable than the licenses
 16 that Defendants seek to exclude.

17 Defendants' Motion *in Limine* No. 1 should be denied.

18 **I. LICENSES IN THIS CASE**

19 **A. VNUS's Licensing of the Patents-in-Suit**

20 VNUS has licensed the Patents-in-Suit to only three companies: AngloDynamics, Inc.
 21 ("ADI"), Vascular Solutions, Inc. ("VSI"), and Dornier MedTech America, Inc. ("Dornier"). Like
 22 Defendants in this case, all three companies were and are direct competitors of VNUS who sell
 23 products in the endovenous ablation device market.¹

24 In 2008, VNUS settled *VNUS Med. Techs., Inc. v. Diomed Holdings, Inc. et al.* ("VNUS I"),

27 ¹ See Exhibit 26 to the accompanying Declaration of Diem-Suong T. Nguyen (the "Nguyen
 28 Decl.") (Excerpt of Bersin Rebuttal Expert Report) at 13; see also Nguyen Decl. 30 (Excerpt of
 Bersin Depo.) at 101:23-102:14, 104:17-19.

1 in which VNUS accused ADI and VSI of infringing three of the Patents-in-Suit.² **REDACTED**

2 **REDACTED**

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4 In July 2010, VNUS and Dornier reached an agreement resolving all claims in this
5 litigation, in which VNUS has asserted the same three patents as it did in *VNUS I* and two newly
6 issued continuations of those patents. **REDACTED**

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9 **B.** **REDACTED**

10 While minimizing the relevance of the only actual licenses of the Patents-in-Suit,
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² Nguyen Decl. Ex. 31 (Final ADI/VSI License). VNUS recently became aware that, due to an inadvertent error in compiling signature pages, the version of the ADI and VSI license agreement produced was not the final form of the agreement. VNUS accordingly is submitting the true final form, which has been produced to Defendants and in all relevant respects is identical to the version attached as Steenberg Decl. Ex. 1.

³ Nguyen Decl. Ex. 31 (Final ADI/VSI License) at 3-4.

⁴ Steenberg Decl. Ex. 10 at 2-3, 4-5.

⁵ Nguyen Decl. Ex. 32 (Excerpt of Stuckwisch Rebuttal Expert Report) at 25, Table 2.

⁶ Nguyen Decl. Ex. 33 (Excerpt of Stuckwisch Depo.) at 167:12-168:3.

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REDACTED Nguyen Decl. Ex. 33 (Excerpt of Stuckwisch Depo.) at 172:17-22.

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Moreover, the '777 patent is substantially narrower than the VNUS patents because it is relevant only to the use of laser devices in the endovenous ablation market, while VNUS's patents cover use of both laser and radio-frequency devices.¹⁵ Finally, a straightforward design-around of the '777 Patent is available to avoid infringement even with respect to laser devices.¹⁶

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⁸ Nguyen Decl. Ex. 26 (Excerpt of Bersin Rebuttal Expert Report) at 46, Exhibit 4.

20 ⁹ Nguyen Decl. Ex. 30 (Excerpt of Bersin Depo.) at 217:16-218:3, 219:5-11.

21 ¹⁰ Nguyen Decl. Ex. 26 (Excerpt of Bersin Rebuttal Expert Report) at 40-42; *see also* Nguyen Decl. Exs. 34 and 35 (VNUS_140935 and VNUS_140918).

22 ¹¹ Nguyen Decl. Exs. 34 (VNUS_140935) at 2; and 35 (VNUS_140918) at 2.

23 ¹² Nguyen Decl. Ex. 30 (Excerpt of Bersin Depo.) at 195:21-196:3, 199:20-200:1.

13 **REDACTED**

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Nguyen Decl. Exs. 32 (Excerpt of

25 Stuckwisch Rebuttal Expert Report) at 25, n. 127; and 26 (Excerpt of Bersin Rebuttal Expert Report) at 46.

26 ¹⁴ Nguyen Decl. Ex. 33 (Excerpt of Stuckwisch Depo.) at 178:14-17.

27 ¹⁵ Nguyen Decl. Ex. 36 ('777 Patent) at claims 1, 9 and 21.

28 ¹⁶ Nguyen Decl. Ex. 37 (Excerpt of Hennings Depo.) at 106:22-107:9.

1 **II. ARGUMENT**

2 ***A. Licenses for the Patents-in-Suit May Be the “Most Reliable” Evidence of a***

3 ***Reasonable Royalty***

4 The Federal Circuit has recently highlighted the importance of a realistic approach to the
 5 calculation of damages and the determination of a reasonable royalty. Specifically, the court has
 6 emphasized the need to control what licenses should be considered in the analysis and to link any
 7 such license directly to the infringed patent.¹⁷ *See ResQNet.com*, 594 F.3d at 871; *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1328 (Fed. Cir. 2009). Thus, in *Lucent Techs.*, for example,
 8 the court overturned a damages verdict because license agreements considered were “radically
 9 different from the hypothetical agreement under consideration.” *Lucent Techs.*, 580 F.3d at 1327.
 10 Similarly, in *ResQNet*, the Federal Circuit overturned the district court because the licenses used by
 11 the plaintiff’s damages expert had “no relationship to the claimed invention.” *ResQNet.com*, 594
 12 F.3d at 870.

14 As part of its emphasis on a more precise analysis, the Federal Circuit has abandoned the
 15 traditional rule that licenses arising out of litigation are generally irrelevant to the determination of
 16 a reasonable royalty. Significantly, in *ResQNet*, “the *most reliable* license in [the] record arose out
 17 of litigation.” *ResQNet.com*, 594 F.3d at 872 (emphasis added). The acknowledgment that
 18 litigation-related licenses may be highly relevant, and are not necessarily categorically different
 19 from licenses entered into outside of litigation, is not surprising given the Federal Circuit’s recent
 20 observation that a license and a covenant not to sue in a settlement agreement are the same. *See*
 21 *TransCore, LP v. Elec. Transaction Consultants Corp.*, 563 F.3d 1271, 1274-76 (Fed. Cir. 2009).
 22 Licenses, by their nature, are entered into in the shadow of litigation, whether or not a formal
 23 complaint has yet been filed or explicitly threatened. While litigation factors may affect the terms
 24 reached in a license arising out of litigation, such a license may nonetheless be more probative than

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 27 ¹⁷ Such licenses are generally considered under the first or second factors going to
 28 reasonable royalty that were laid out in *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1121 (S.D.N.Y. 1970), *modified and aff’d*, 446 F.2d 295 (2d Cir. 1971): (1) the royalties received by the patentee for the licensing of the patent-in-suit, and (2) the rates paid by the licensee for the use of other patents comparable to the patent-in-suit.

1 unrelated licenses concerning different technologies or parties. Accordingly, the court in *ResQNet*
 2 instructed the district court to consider the litigation-related agreement on remand and to disregard
 3 licenses that were not connected to the patent-in-suit. *ResQNet.com*, 594 F.3d at 872-3.

4 Following *ResQNet*, numerous district courts have acknowledged the probative value of
 5 licenses arising out of litigation and have held them to be admissible. *See Datatreasury Corp. v.*
 6 *Wells Fargo & Co.*, No. 2:06-cv-72, 2010 WL 903259, at *2 (E.D. Tex. Mar. 4, 2010) (“In light of
 7 *ResQNet*, litigation-related licenses should not be excluded.”); *ReedHycalog UK, Ltd. v. Diamond*
 8 *Innovations Inc.*, No. 6:08-cv-325, 2010 WL 3021550, at *3 (E.D. Tex. Aug. 2, 2010) (“The
 9 probative value of the five licenses involving the Patents-in-Suit that resulted from litigation
 10 outweighs the danger of potential prejudice or jury confusion of the issues.”); *Advanced Tech.*
 11 *Incubator, Inc. v. Sharp Corp.*, No. 5:09-cv-135, slip. op. at 6 (E.D. Tex. Mar. 31, 2010) (Ex. 2)
 12 (denying motion to exclude litigation-related licenses on the ground that *ResQNet* “found that
 13 litigation-related licenses can be highly probative of a reasonable royalty”); *see also Tyco*
 14 *Healthcare Group LP v. E-Z-EM, Inc.*, No. 2:07-cv-262, 2010 WL 774878, at *2 (E.D. Tex. Mar.
 15 2, 2010) (holding settlement agreement and negotiations discoverable because “a prior, related
 16 settlement agreement . . . may be central to the fact-finder’s determination of damages using a
 17 hypothetical negotiation analysis”).

18 The fact that Defendants refuse to acknowledge these cases is notable. Indeed, all but two
 19 of the cases cited in their entire brief predate *ResQNet*. In one of the two post-*ResQNet* cases,
 20 moreover, the court did not even address the admissibility of litigation-related licenses. It simply
 21 noted that two non-litigation-related licenses were more probative than the studies used by the
 22 plaintiff’s damages expert. *IP Innovation LLC v. Red Hat, Inc.*, No. 2:07-cv-447, 2010 WL
 23 986620, at *3 (E.D. Tex. Mar. 2, 2010). In the only other post-*ResQNet* case cited by Defendants,
 24 the district court held that the Federal Circuit’s decision did not compel the admission of settlement
 25 agreements for the purpose of showing customary business practice. *Fenner Inv., Ltd. v. Hewlett-*
 26 *Packard Co.*, No. 6:08-cv-273, 2010 WL 1727916, at *3 (E.D. Tex. Apr. 28, 2010). The court
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¹⁸Id.

B. VNUS's Licenses of the Patents-in-Suit Are Admissible as the Most Reliable Evidence of a Reasonable Royalty

The facts of this case put it squarely on point with *ResQNet*. As in that case, the only reliable comparable licenses are those that arose out of litigation. VNUS’s agreements with ADI, VSI and Dornier are the only licenses that cover the patents and claims at issue in this case. Moreover, those agreements license that technology to direct competitors who, like Defendants, sell products in the endovenous ablation device market.¹⁹ Finally, like the license found relevant in *ResQNet*, VNUS’s agreements set forth a running royalty structure to cover ongoing use of the patents.

11 It is helpful to consider the significance of the ADI, VSI and Dornier licenses in comparison
12 to the irrelevance of **REDACTED**

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These differences are fundamental. First, at the time of the hypothetical negotiation

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¹⁸ Defendants suggest that the fact that *ResQNet* was tried before a judge as opposed to a jury is significant. This reasoning was explicitly rejected in *Datatreasury*, where the court noted that “the licenses at issue were considered by that trial court sitting as trier of fact, just as the jury will sit in [this] case.” *Datatreasury Corp.*, 2010 WL 903259, at *2.

¹⁹ Nguyen Decl. Exs. 26 (Excerpt of Bersin Rebuttal Expert Report) at 13; and 30 (Excerpt of Bersin Depo.) at 101:23-102:14, 104:17-19.

²⁶ ²⁰ Nguyen Decl. Exs. 33 (Excerpt of Stuckwisch Depo.) at 172:17-22; 34 (VNUS_140935) at 2; and 35 (VNUS_140918) at 2.

²¹ See, e.g., Nguyen Decl. Exs. 38 (Excerpt of Furcht Depo.) at 43:25-44:8, 45:2-11; and 39 (Excerpt of Nina Davis Depo.) at 33:15-25.

REDACTED

When licensing to competitors such as Defendants,
VNUS would have insisted on a running royalty with a fixed fee per unit (as opposed to a
percentage of revenues) to avoid the risk of price erosion caused by competitors lowering their
prices and to ensure a certain level of compensation for sales lost to licensees. In contrast, a license
is the only way for non-practicing licensors such as **REDACTED** and **REDACTED** to
derive revenue from their technology, making such parties amenable to a much lower royalty rate.
Related parties, **REDACTED** would likely
demand yet lower rates.

In light of the relative importance of the ADI, VSI, and Dornier licenses, Defendants' trumped-up claims of juror confusion and trial complexity are particularly misplaced. (Defs.' Mot. No. 1 at 5-6). First, contrary to Defendants' claims, there will be no need to delve into the details of VNUS's infringement case against ADI, VSI, or Dornier. The license agreements are not being used to show infringement but rather to demonstrate the license fees for the Patents-in-Suit that are being paid by market participants. Any use of a license agreement to support an opinion regarding proper measurement of reasonable royalty damages invites some degree of comparison between the circumstances surrounding that license and the circumstances applicable to the case at hand.

26 Second, the need to highlight the “particular benefits” received by each licensee would
27 occur regardless of whether the license arose out of litigation. If this were sufficient to require

1 exclusion, then potentially comparable licenses could never be used in the reasonable royalty
2 analysis.

3 Third, the concern that the number of patents covered by the licenses will add to confusion
4 is a red herring. VNUS’s endovenous ablation patents of greatest relevance and value to ADI, VSI,
5 Dornier, *and Defendants* are obviously those that it has asserted in *VNUS I* and this case. As is
6 customary, the ADI, VSI, and Dornier licenses included all of VNUS’s patents in the field so as to
7 ensure a final resolution. However, the technology at the heart of the licenses and that generates
8 the economic value they reflect is that which is covered by the Patents-in-Suit that were asserted in
9 litigation. Inclusion of the add-ons is readily explained, and any effort by Defendants to explore
10 them in detail would only put Defendants’ credibility at risk before the jury.

11 On the basis of these exaggerated concerns, Defendants would have the Court exclude the
12 most relevant licenses **REDACTED**

REDACTED

C. The ADI, VSI, and Dornier Licenses Are Not Inadmissible Under Rule 408

16 Defendants' assertion that Federal Rule of Evidence 408 prohibits the admissibility of the
17 ADI, VSI, or Dornier license agreements—based solely on pre-*ResQNet* cases—also fails. First, as
18 discussed, the Federal Circuit has observed that such running royalty licenses can be important to
19 the reasonable royalty analysis. Defendants' reading of Rule 408 would wholly undermine the
20 Federal Circuit's rulings in an area unique to patent law and within its exclusive jurisdiction. Their
21 interpretation must therefore be rejected. *See Midwest Indus. Inc. v. Karavan Trailers Inc.*, 175
22 F.3d 1356, 1359 (Fed. Cir. 1999) (explaining that Federal Circuit law applies “beyond the limits of
23 substantive patent law and into areas in which the disposition of the nonpatent-law issues is
24 affected by the special circumstances of the patent law setting in which those issues arise.”).
25 Second, the ADI, VSI, and Dornier settlements resolved different claims than those involving
26 Defendants and no precedent mandates that agreements resolving different VNUS claims be
27 excluded. *See Orlando v. Carolina Cas. Ins. Co.*, No. Civ-F-07-0092, 2007 WL 781598, at *8, n.9
28 (E.D. Cal. Mar. 13, 2007) (holding that Rule 408 “[does] not apply to claims that are not the

1 subjects of the negotiations"); *Matsuura v. E.I. du Pont De Nemours and Co.*, No. 96-01180, 2006
 2 WL 2734291, at *2 (D. Haw. Sept. 22, 2006); *Towerridge, Inc. v. T.A.O., Inc.*, 111 F.3d 758, 770
 3 (10th Cir. 1997) ("Rule 408 does not require the exclusion of evidence regarding the settlement of a
 4 claim different than the one litigated."); *Broadcort Capital Corp. v. Summa Med. Corp.*, 972 F.2d
 5 1183, 1194 (10th Cir. 1992) (allowing evidence of settlement discussions because the evidence was
 6 not admitted to prove the validity or amount of the "claim under negotiation").²² Finally, the
 7 going-forward license payments by ADI, VSI, and Dornier are not consideration in compromise of
 8 the claims in the past litigations but are instead consideration for post-litigation use of the VNUS
 9 patents. The lump-sum payments for past infringement are properly viewed as having been in
 10 settlement of the claims that were at issue.²³ The going-forward royalty is a license for future sales
 11 that were not the subject of litigation.²⁴

12 **D. The Licenses Are Not Inadmissible Hearsay**

13 Defendants' final claim is that the ADI, VSI and Dornier licenses are inadmissible as
 14 hearsay because they include a statement by VSI and ADI acknowledging the validity and
 15 infringement of VNUS's three patents that were in suit at the time of the agreement. A document
 16 or statement is only hearsay, however, if it is offered to prove the truth of the matter asserted. Fed.
 17 R. Evid. 801(c).²⁵ Neither the licenses nor any statements in them will be used for this purpose.
 18 First and foremost, the amount and structure of the royalties will be used to show the royalties
 19 VNUS lost on sales the licensees would have made in lieu of a portion of Defendants' infringing
 20 sales and to assist in determining a reasonable royalty applicable to the Patents-in-Suit. Moreover,

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 22 ²² Defendants suggest that Ninth Circuit law extends Rule 408 to all claims and all parties.
Hudspeth v. Comm'r of Internal Revenue Serv., 914 F.2d 1207, 1213-14 (9th Cir. 1990), however,
 23 considered the public's interest in insuring that the tax commissioner not be bound by past
 24 agreements which clearly does not apply in this case. The remaining cases cited by Defendants for
 this proposition are not binding on this Court and conflict with the district court precedent cited
 above.

25 ²³ Nguyen Decl. Ex. 31 (Final ADI/VSI Settlement) at 6; Steenberg Ex. 10 at 6.

26 ²⁴ To the extent the Court considers such lump-sum payments to be excludable under Rule
 408, VNUS would propose to introduce a redacted version of the license agreements or a summary
 of their terms without this information.

27 ²⁵ Even if that statement was offered to prove its truth, it would nonetheless be admissible as
 28 a statement against interest under Fed. R. Evid. 804(b)(3).

1 to the extent any VNUS expert refers to the statement that ADI and VSI agree that certain patents
 2 are “valid, enforceable and indirectly infringed,” they will do so for a similarly non-hearsay
 3 purpose. VNUS’s damages expert may note the fact that ADI and VSI so agreed only in order to
 4 explain the difference between the ADI/VSI license REDACTED

5 VNUS’s validity and infringement experts may reference the
 6 fact of ADI and VSI’s acknowledgment to show industry respect for the claimed inventions and the
 7 fact that a design-around is not easily available.²⁷

8 Finally, to the extent that the Court does consider ADI and VSI’s acknowledgment of
 9 validity and infringement to be inadmissible hearsay, the appropriate remedy would be for VNUS
 10 to introduce a redacted version of the ADI and VSI license or, alternatively, provide a summary of
 11 its licensing terms without this information. *See ReedHycalog UK*, 2010 WL 3021550, at *3
 12 (permitting plaintiff to identify the licenses, the licensees, the rates of the licenses, and the royalties
 13 received while not identifying the licenses as having resulted from litigation). In light of the highly
 14 probative value of the licenses themselves, to exclude them in their entirety is both drastic and
 15 unnecessary.

16 **III. CONCLUSION**

17 For these reasons, Defendants’ Motion *in Limine* to exclude the ADI, VSI and Dornier
 18 settlement agreements should be denied.

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²⁶ Steenberg Ex. 13 at 5.

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²⁷ Steenberg Exs. 7 at 13 n.6; and 8 at 59.

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2 Dated: September 7, 2010

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